



HOUSE COMMITTEE ON THE BUDGET
Majority Caucus

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CBO CONFIRMS EFFECT OF TERRORISM, RECESSION ON BUDGET SURPLUSES

The Federal budget projections released today by the Congressional Budget Office [CBO] confirm what was already anticipated:

- Most of the decline in surpluses projected a year ago resulted from the triple threat of the terrorist attacks on the United States, the war against terrorism being waged overseas, and the recession. For the period of 2002-2011, \$1,589 billion of the surplus decline (compared with estimates of January 2001) resulted from “economic and technical” factors, \$756 billion from increased spending (including \$249 billion specifically for antiterrorism and homeland security measures in the end-of-session supplemental, and extended in the baseline); and \$1,663 billion from last year’s tax reduction bill. (See table below.)
- These factors also are principally responsible for the deficit in fiscal year 2002 and the projected deficit in fiscal year 2003. Economic factors reduced the 2003 surplus (as estimated in January 2001) by \$215 billion, and increased spending reduced it by \$58 billion.

As always, CBO’s budgetary estimates depend in large part on its projection of economic performance. CBO projects that the economy may already have reached its low point. The projection assumes real gross domestic product [GDP] growth of 0.8 percent in calendar year 2002, and 4.1 percent in 2003. After that, CBO projects real GDP growth averaging 3.3 percent for 2004-2007, and 3.1 percent for 2008-2011. CBO also assumes inflation of 1.8 percent in 2002, and 2.5 percent in 2003. It projects inflation at about 2.5 percent for the 2003-2012 period.

CBO’s figures – presented today to the House Committee on the Budget – reflect the agency’s “baseline” estimate, which counts only programs already in effect and new programs that have been signed into law. Therefore, the figures probably understate the amount of near-term deficit spending that will be needed to fight terrorism and recession, and enhance homeland security. They also are likely to differ from the President’s projections, expected to be submitted to Congress on 4 February, because the administration’s “post-policy” projections take into account the President’s proposed policy initiatives.

Causes of Surplus Changes
(by fiscal year, in billions of dollars)

	2002	2003	2002-2006	2002-2011
Total Surplus Estimate, January 2001	313	359	2,007	5,610
Economic/Technical Changes Since January 2001 ^a	-242	-215	-886	-1,589
Legislated Changes in Spending ^a	-49	-58	-313	-756
Total: Economic/Technical Changes Plus Spending Changes	-291	-273	-1,199	-2,345
Economic Growth and Tax Relief Act (Public Law 107-16) ^a	-43	-100	-558	-1,663
New Surplus/Deficit(-) Estimate (January 2002)	-21	-14	250	1,602

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This document was prepared by the majority staff of the House Committee on the Budget. It has not been approved by the full committee and therefore may not reflect the views of all the committee’s members.